

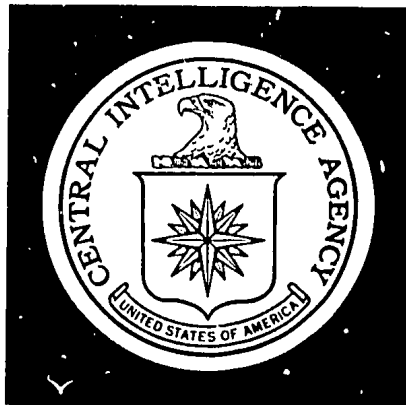
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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Swaziland: Economic Prospects After Independence

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
July 1968

INTELLIGENCE MEMORANDUM

Swaziland: Economic Prospects
After Independence

Summary

At independence, scheduled for September 1968, Swaziland can anticipate a bright economic future for a small African country, provided it can cope with the challenge posed by white dominance of its rapidly growing modern economy. If mineral rights and land tenure problems between the 8,000 whites and 380,000 blacks are resolved peaceably, there will be a good chance for rapid economic growth and modernization. But if the Swazis assert control of the white-financed and white-run modern sector too rapidly and thus force a large proportion of the whites to leave, Swaziland could collapse into a stagnant debt-ridden state similar to so many others in Africa.

The country has a variety of natural resources -- minerals, excellent forest land, a good climate, and reasonably fertile soils -- and a fairly well-developed economic infrastructure. It produces both temperate and tropical agricultural products, as well as asbestos, iron ore, coal, timber, and cattle. The value of both exports and imports has more than tripled over the past seven years. Government revenues, although still inadequate, are growing rapidly. The 8,000 resident whites, most of whom came from South Africa, own more than half of the productive lands, provide the capital and management for development, and, along with black South Africans, provide many of the

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skills that have sparked the rapid economic growth. More than half the native Swazis of working age are involved in the money economy, but largely in the less-demanding jobs. Their increasing insistence on filling the better jobs may threaten the stability and growth of the modern sector.

Swaziland's future will depend to a large extent on whether the ruling Swazi aristocracy can continue to absorb young modernists into its ranks and also resist the demands of the traditional Swazis for reinstituting communal ownership of land now held by whites. Further development of mineral, forest, and agricultural resources will require at least a continuation of the economic arrangements now in force. The reasonably good working relationship between whites and Swazis that now prevails must be maintained if economic growth is to continue.

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The Economic Setting*King Sobhuza II*

1. Swaziland is one of the few sub-Saharan African states that will achieve its sovereignty free of the divisive multi-tribalism that has plagued so many other newly independent African states. Unlike almost all other African countries, which contain numerous distinct tribes, Swaziland's 380,000 blacks are members of one cohesive nation. The traditional structure of Swazi society has remained unaltered by its relatively minor contact with Europeans. Consequently, position within the traditional society is more important than status within the small modern society, and political practices and institutions introduced within the last decade constitute only a veneer over the traditional decision-making processes. Most Swazis continue to give allegiance to local chiefs, who allocate the use of tribally owned land. Their ultimate allegiance is to the King, Sobhuza II, whose position as the paramount chief is enhanced by the fact that he has reigned for almost 50 years.

2. Swaziland is a landlocked country, bordered on the north, west, and south by the Republic of South Africa and on the east by Mozambique. Although only 6,700 square miles in area, it is a well-watered and remarkably diverse country. The mountainous western region has rich mineral deposits -- asbestos and iron ore are the most important -- and its soils and near-temperate climate are ideal for afforestation. To the east, the gently rolling Middle Veld is suitable for farming, dairying, and cattle grazing. The Low Veld, a savannah belt, and the subtropical eastern plateau are excellent for cattle raising and, with irrigation, for crops such as sugar, cotton, and citrus fruit.

3. Swaziland's prospects for continued progress and economic growth after independence depend on the handling of two fundamental problems: white domination of the economy and land distribution and ownership, including mineral rights and concessions. Whites

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number only about 8,000, about 2 percent of the population, but they dominate the modern economy. They own about 45 percent (some 1.9 million acres) of the country's total land area, including the best farmland (see Figure 1). They are the principal entrepreneurs and fill many of the skilled and most of the managerial and executive positions in the civil service and the private sector of the economy. South African and British initiative has been responsible for most of Swaziland's recent dramatic economic growth, including the development of the country's forest and mining potential and the recent upsurge in exports of such primary commodities as sugar, cotton, citrus fruits, asbestos, iron, and coal.

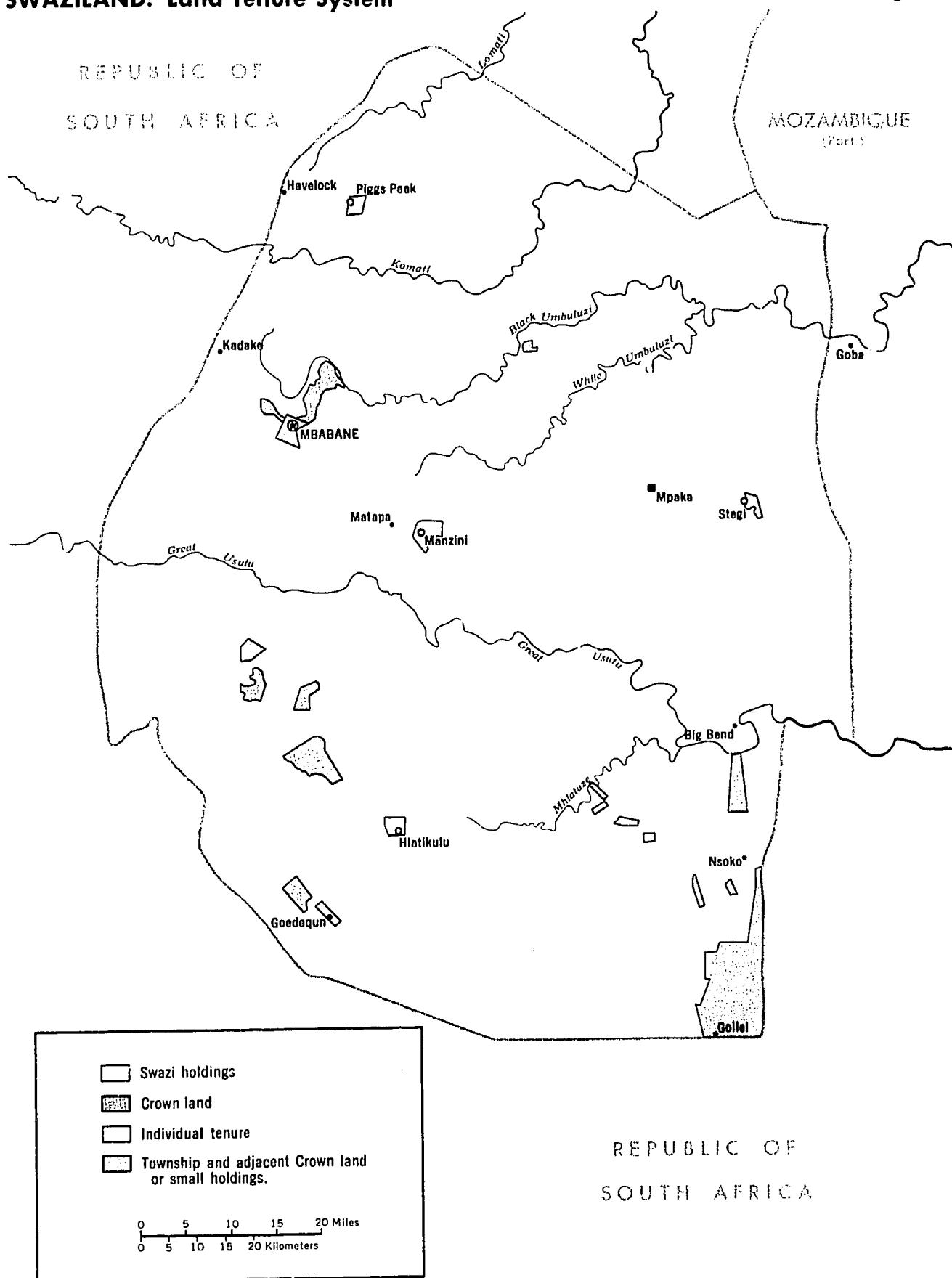
4. The problem of land ownership will arise soon after independence, and its solution will determine Swaziland's future for many years. At the heart of the problem is the traditional Swazi practice of communal ownership, in which the King "owns" the land in trust and, in consultation with the Swazi National Council (a traditional advisory body), designates its use. Many Swazis hope that independence will mean the return of Swazi control over lands now held by whites, and the ruling Swazi aristocracy favors conversion of freehold tenure to a system of leasehold tenure in which no individual would own private land. This not only would discourage white farmers but also would lower incentives among Swazi farmers to improve their farms and to become commercial farmers. In addition, it would discourage and perhaps end the interest of foreign capital in prospecting for and developing mineral deposits.

5. Although a typical African subsistence economy -- separate from the modern economy -- exists in Swaziland, individual Swazis move between the two economies with relative ease. Long accustomed to wage employment in South African mines, the Swazis have moved readily into Swaziland's money economy as opportunities have arisen. About 80 percent of the Swazi men become wage earners for some periods during their adult lives. As a result, Swaziland has one of the highest rates of wage employment in sub-Saharan Africa, with about 58 percent of the male working age population of more than 86,000 earning at least part of its livelihood in the money economy. Of this number, about half work on the large white-owned farms, in forestry, and in Swaziland's mines, and the rest work in manufacturing, construction, and services. In

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SWAZILAND: Land Tenure System

Figure 1



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Typical Swaziland Village

addition to the domestically employed labor force, more than 10,000 Swazis migrate annually to South Africa to work for a year or two in the mines. These jobs provide the money needed to pay the head tax (between \$5 and \$10 a year for each adult male Swazi) and to buy a few consumer items, such as clothing, cooking utensils, and salt. Many of these workers return home after a few months or a few years.

6. Approximately 50,000 Swazis live and work in the towns as permanent members of the money economy. About 10,000 of them are small businessmen, merchants and traders, or owners and operators of buses. A few educated Swazis have civil service positions as middle and lower level administrators, but more are employed as clerks, drivers, and messengers. The higher skilled positions are usually held by better educated black South Africans, and artisans are often white South Africans or Mozambicans. The senior levels of the civil service have traditionally been filled by British citizens who are considered obstacles in the way of the junior-level Swazis. With the approach of independence, the pressure for filling higher civil service positions with Swazis has been increasing. So far, however, pressure to displace whites has not been significant in the private sector.

7. Most Swazis spend a great part of their adult lives as farmers and herdsmen in the subsistence sector. Land is communally held and often fragmented -- a farmer may work a piece of land on which he has his house, yet

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graze his cattle several miles away. The main crops are corn and sorghum, but the country does not grow enough corn for its own needs and usually imports about 15,000 to 20,000 tons a year from South Africa. As in most of East Africa, more than three-fourths of Swazi-held land is used for grazing cattle, which are raised as symbols of wealth and prestige rather than as marketable items. Although an outbreak of foot-and-mouth disease in 1965 and droughts in 1965 and 1966 reduced the number of livestock somewhat, overstocking continues to be a serious problem. Only about 5,000 Swazis use modern methods of farming, and suggestions for adoption of modern practices are stubbornly resisted as potential dangers to the traditional chiefs' control over the land.

Recent Economic Development

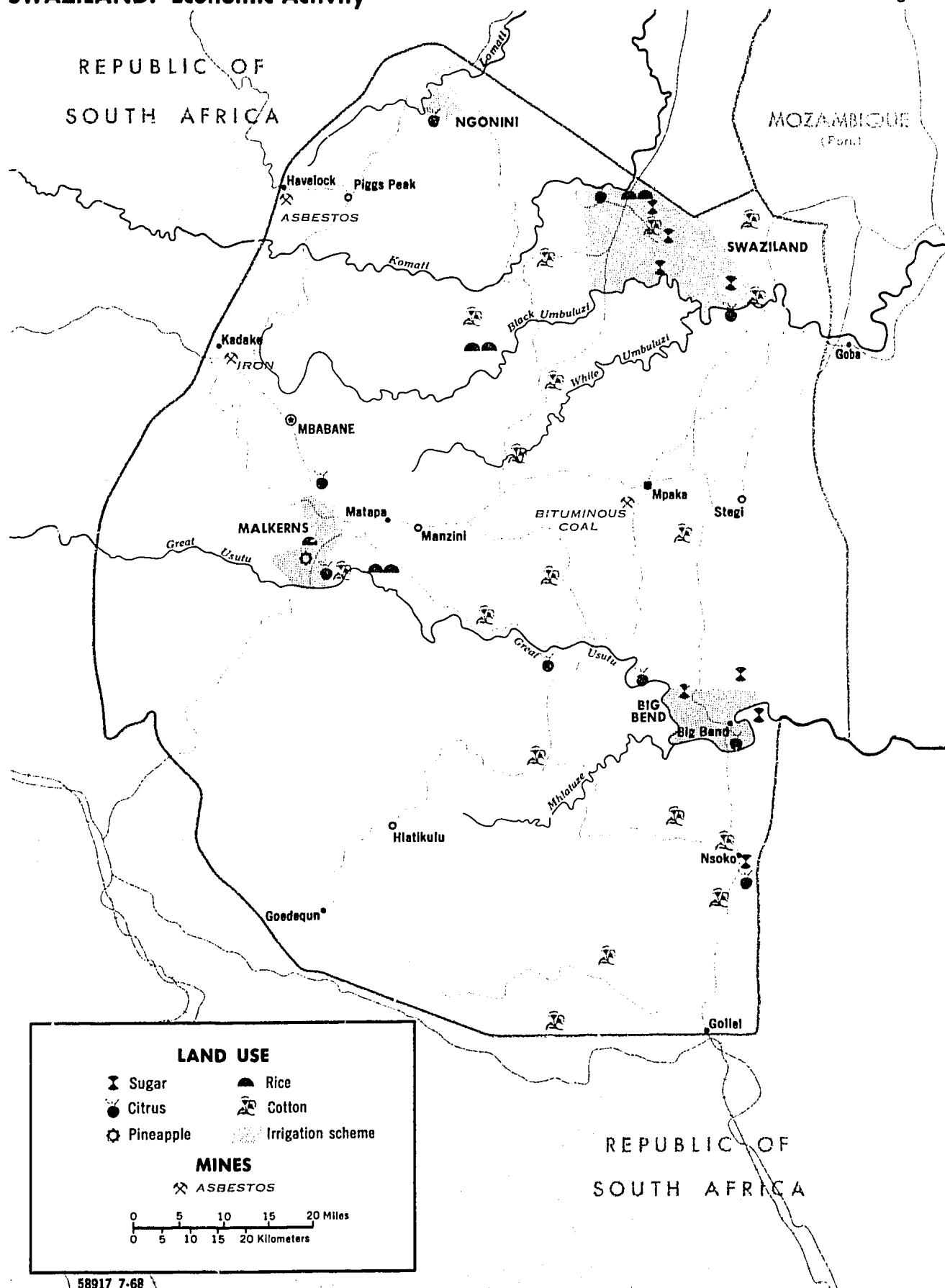
8. In contrast to the stagnant traditional economy, Swaziland's modern economy is booming. The growth in gross domestic product (GDP) averaged 19 percent annually from 1960 to 1964 but declined to about 10 percent annually in the following two years. GDP was estimated to be \$100 million in 1966, about \$250 per capita. Both exports and imports have tripled in value since 1960, with export earnings in 1966 reaching \$54 million (see Tables 1 and 2). Swaziland's rapid development from a single export product (asbestos in the 1950's accounted for 80 percent of all exports) to a well-diversified export-oriented economy resulted from substantial investment by the British-owned Commonwealth Development Corporation (CDC) and other private foreign investors over the past decade. Exports now include sugar, rice, cotton, citrus fruit, wood products, and cattle. The single most important economic development has been exploitation of the country's iron ore, which contributed \$7 million in 1965 and almost \$11 million in 1966 to total export earnings (see Figure 2).

9. Agriculture remains the backbone of Swaziland's money economy, contributing an estimated 25 percent of GDP, employing almost half of the labor force, and providing 45 percent of Swaziland's exports. Commercial agriculture, which is dominated by white farmers, has grown rapidly over the past decade. The large-scale, highly mechanized, and efficient farms specialize in sugar, pineapples, citrus fruit,

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SWAZILAND: Economic Activity

Figure 2



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Table 1

Growth of Exports, 1960-66

	Million US \$						
	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
Total value	17	18	21	31	32	44	54
Minerals	8	7	7	7	8	15	18
Wood	1	1	1	6	8	11	12
Agricultural products	8	10	13	18	16	18	24

Table 2

Trade Balance, 1960-66

	Million US \$						
	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
Exports	17	18	21	31	32	44	54
Imports	11	15	20	28	27	37	N.A.
Surplus	6	3	1	3	5	7	N.A.

cotton, and tobacco. Sugar and citrus fruit output is expected to rise rapidly in the next few years, as plantings come to maturity and planted acreage expands. Since late 1964, Swaziland has marketed its sugar at preferential prices under the Commonwealth Sugar Agreement (more than 123,000 short tons annually). Swaziland has a US sugar quota of 6,700 short tons a year and sells another 20,000 to 30,000 short tons on

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Pineapple Plantation in Swaziland

the world market. Prior to 1964, bilateral arrangements with the Republic of South Africa's sugar marketing board had imposed comparatively restrictive quotas on Swaziland's growers. Such arrangements have remained in force for tobacco, citrus, and many other agricultural products, most of which are sold to or through South African marketing organizations.

10. About a fifth of Swaziland's exports are wood products, including pulp, planed and rough-sawn timber, and telegraph poles. About 193,000 acres of forests have been planted since 1948 by the CDC in the well-watered High Veld, which is an ideal timber region where the growth rate of conifers and eucalyptus is among the highest in the world. Forestry could become even more important if suitable acreage in the High Veld now under tribal control -- about 150,000 acres -- were released for afforestation. Prospects for release of this land after independence, however, appear poor because of Swazi reluctance to give up more herding lands to modern exploitation.

11. The forestry industry is largely foreign-owned. The largest of the three principal firms is the Usutu Pulp Company, a \$14 million enterprise owned jointly by the CDC and Courtaulds Ltd., Britain's largest synthetic fibers firm. A \$190,000 share in Usutu is held by the King in trust for the Swazi nation. Other than the small interest in Usutu, however, the Swazis participate in forestry only as paid laborers.

12. South African and British investment in mining in the early 1960's was the impetus for much of the recent economic growth. The major project was an iron mine near Ngwenya, which by 1965 had produced and exported 1.1 million short tons of high-grade iron

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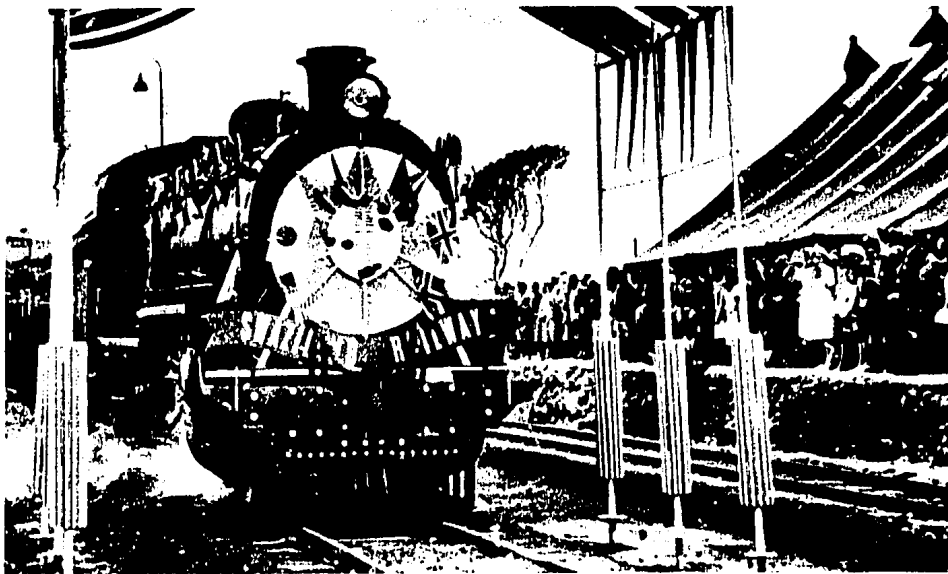
Swaziland: Typical Forest Zone



Swaziland: Pine and Gum Tree Plantings

ore to Japan. The mine is operated by the Swaziland Iron Ore Development Corporation (SIODC), owned by South African and British interests. SIODC has a \$112 million contract to supply two Japanese steelworks with more than 14 million short tons of iron ore over a ten-year period. A 136-mile railroad financed by South African interests was finished in 1964 from Ngwenya, which is in the western part of Swaziland, to the eastern border where it connects with the Mozambique Railway to the port of Lourenco Marques. Although the primary purpose of the railroad was to transport Ngwenya iron ore to the sea, fruit growers, sugar planters, and the Usutu Pulp Company along its route have also benefited. The

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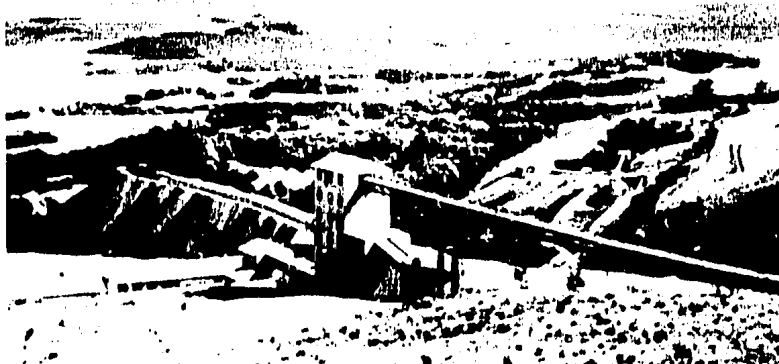
Opening of the Railroad in Ngwenya in 1964

increased traffic has made the railroad a financial success and will probably permit amortization within ten years. A coal mine was opened at Mpaka to supply the railroad, and Mpaka coal is now sold to a cement plant at Lourenco Marques and to Swaziland consumers at prices competitive with South African coal. Electricity for the iron mine at Ngwenya is supplied by an 11.5-megawatt hydroelectric plant at Edwaleni, on the Usutu River, financed by the International Development Association. Consumption of electricity by mining, forestry, and agricultural users, as well as the industries in Mbabane, Manzini, and Matsapa, has increased so much since the plant's completion in 1963 that the World Bank has extended a second loan for plant expansion.

13. Prior to 1958, development of the mining industry was hampered by the land tenure system, which discouraged mining in Swazi owned territory, and by the cumbersome administrative machinery used to grant prospecting and mineral rights on Crown land. During this period, there was little mining activity outside the asbestos industry, which was then the mainstay of the money economy. In an effort to encourage mining, taxes were imposed in 1958 on mining concessions that were not actively being exploited. As a result, most concessions were either developed or surrendered to the Crown. By the early 1960's, the mineral rights to 86 percent of Swaziland's total area were under Crown control. The concession to mine the

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*Washing and Screening Facility at the
Swaziland Iron Ore Development Co.*



Asbestos Plant in Havelock, Swaziland

country's iron ore, however, was granted under a British administrative decision and was not approved by the Swazis. Under the constitution, which becomes effective at independence, all mineral rights will pass to the King who is to hold them in trust for the Swazi nation. It is unlikely that he, his successor, or the Swazi National Council will permit further development of new deposits unless investors are willing to accede to Swazi demands for profit sharing and more jobs. Presumably this will not affect existing rights in the iron mine.

14. Manufacturing in Swaziland, based mainly on processing agricultural and forest products, has expanded rapidly in the past decade. A slaughterhouse, a meatpacking plant, and a cotton gin were completed in 1965 at an industrial site near the railroad at Matsapa, representing an investment of about \$6 million. Production at this site accounted for exports of cotton and fresh meat valued at

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more than \$1 million each in 1966. After the Matsapa industrial site was completed, investment funds flowed in rapidly. Although tight money and credit restrictions in South Africa in 1966-67 have slowed the rate of investment, further expansion is planned.

Ties with South Africa

15. Swaziland depends on South Africa for its currency and banking services and is associated in a monetary and customs union, established in 1910 by agreement between the United Kingdom and the Union of South Africa. Imports from outside the customs union are subject to South African tariffs, and Swaziland receives a fixed share of total South African customs revenues. Until 1964, Swaziland's share was 0.15 percent, a share smaller than would have accrued to the territory had the revenue been determined by Swaziland's actual imports. The share was renegotiated in 1965 by the United Kingdom and South Africa, and increased to 0.53 percent. Swaziland's revenues from customs duties now run over \$2 million a year.

16. Swaziland's dependence on South Africa in foreign trade decreased rapidly after the Ngwenya-Mozambique railroad was completed. Before this, South Africa was Swaziland's most important trading partner, buying more than half the country's exports in 1961. The customs agreement with South Africa assured Swaziland a market for its cattle, cotton, butter, and fresh fruit, in addition to asbestos and other minerals. In exchange, South Africa provided manufactured articles, capital equipment, and the necessary corn and sorghum to meet Swaziland's agricultural shortfalls. Since completion of the railroad and development of new exports, such as iron ore, sugar, canned fruit, and meats, Swaziland has gained new markets. By 1966, only 20 percent of its exports went to South Africa (see Table 3). The most important new market for Swazi products is Japan.

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Table 3

The Changing Direction of Exports, 1961-66

<u>Destination</u>	<u>Percent of Total Exports</u>					
	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
South Africa	53	59	43	36	16	20
United Kingdom	40	33	36	29	35	39
Other countries	7	8	21	35	49	41

Reliance on Aid

17. Swaziland requires foreign assistance to balance its government budget, but expanding economic activity and increasing revenues from taxes and customs could permit a balanced budget without foreign aid by 1970. Budget deficits amounted to more than 25 percent of ordinary expenditures from 1961 through 1967 and were covered by British grants-in-aid totaling about \$20 million (see Table 4). The expansion of government services, a sharp rise in annual debt servicing, increasing costs of administration, and large improvements in infrastructure have increased total annual expenditure from \$9.8 million in fiscal year 1961* to \$21.4 million in fiscal year 1968. A substantial increase in revenues is expected by fiscal year 1969, when some of the larger companies start to pay taxes. The public debt is large (about \$40 million) relative to Swaziland's revenues, but it has been incurred mainly for self-liquidating investments -- for example, the railroad and hydroelectric facilities. If economic growth continues, there should be no difficulty in servicing the public debt.

* *Fiscal years begin 1 April of the year shown.*

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Table 4

Budgetary Operations
Fiscal Years 1961-68

	Million US \$							
	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966 a/</u>	<u>1967 a/</u>	<u>1968 a/</u>
Revenues	5.3	5.5	5.7	6.2	8.1	8.4	13.1	15.1
Grants - in-aid	0.7	1.5	2.4	4.5	4.2	3.4	2.7	6.3
Other aid	2.5	1.8	1.2	2.3	3.6			
Total revenues	8.5	8.8	9.3	13.0	15.9	11.8	15.8	21.4
Expenditures	9.8	11.9	11.4	13.4	15.9	11.8	15.9	21.4

a. *Estimated.*

18. Development spending has been financed almost entirely by foreign aid, which averaged less than \$0.5 million until 1960, when it increased to almost \$5 million annually. Since 1963, aid has averaged about \$5 million a year. British grants and loans and Commonwealth Development and Welfare aid have supplied most of the funds. Swaziland obtained \$7 million in loans from the International Development Association for the hydroelectric power plant at Edwaleni, and \$23.8 million in loans from the Commonwealth Development Corporation and from private South African sources have been used for the railroad construction. There has been a shift in government spending in recent years (see Table 5) from the heavy infrastructure expenditures of the early 1960's toward social services, education, and manpower training. The main thrust of the government's development effort currently is toward raising personal incomes, and priority is being given to expanding educational opportunities and to the development of Swazi agriculture. These goals, which are necessarily long-range, will be costly to implement and will probably require the imposition of higher taxes.

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Table 5

Comparison of Public Development Expenditures
Fiscal Years 1963-68

	<u>Percent</u>	
	<u>1963-66</u>	<u>1967-68</u>
Infrastructure	77.6	42.5
Economic services (including agriculture)	9.3	21.5
Social services (including education)	11.5	32.5
Administration	1.6	3.5
<i>Total</i>	<i>100.0</i>	<i>100.0</i>

Prospects

19. Swaziland's economic prospects are bright if the transition from a white-dominated economy is not too rapid. The past decade has seen increasing agricultural and mineral output, rising personal income for both Swazis and whites, and the development of a basic economic infrastructure. Given political stability and a secure place for the whites, the resources and skills available should continue to attract private investment. In the longer run, aside from possible new mineral discoveries, continued growth depends primarily on developing irrigation, forestry, and the production of cattle.

20. The country should be able to finance a larger share of its development from domestic resources, although the cost of education to increase Swazi participation in the modern economy will be a financial burden for some time. Success in the government's plans to modernize agriculture will require a change in the Swazi attitude toward the traditional system of land tenure, which discourages individual farming, fencing and other measures to control livestock, and private initiative.

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21. Whether or not Swaziland will realize its economic potential depends in large measure on the skill with which its leaders can encourage increasing participation of Swazis in the modern economy while retaining opportunities for the white settlers and entrepreneurs. The presence of whites in Swaziland's economy will be essential for a number of years, but expropriation of land or uncertainty about land tenure could mean their exodus, as has happened in other newly independent African countries. A large-scale exodus would seriously hamper Swaziland's economic growth. The expropriation of white-held lands is unlikely as long as King Sobhuza retains control, but it is equally unlikely that the King, or his successors, will approve the acquisition of more land or mineral rights by whites at the expense of the Swazi nation.

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